

AR21

annual report
1977~78

SOQUIP

Minister responsible for SOQUIP:
the Honourable Guy Joron,
ministre délégué à l'Énergie
Nominal shareholder:
the Honourable Jacques Parizeau,
ministre des Finances

Directors

Bernard Cloutier – Chairman of the Board
Fernand Girard – Vice-Chairman of the Board

André Marier – Director
Jacques Fortier – Director
Robert Vachon – Director

Officers

Bernard Cloutier – President, Chief Executive Officer

Jean-Baptiste Bergevin – Managing Director, Administration and technical Services (by interim)

Jacques Plante – Managing Director, Exploration and Production

Jean-Baptiste Bergevin – Managing Director, Industrial and Commercial Division

René Bédard – Secretary and General Counsel

Managers

Jean-R. Gagnon – Land
Dr. Frederik Van Oyen – Exploration
Mario Sanchez – Operations and Production
Jacques Charpentier – Accounting

Advisory staff

Francine Beaulieu – Administrative Advisor
Miodrag Roksandic – Head of special projects in exploration

Section heads

Bernard Granger – Geology Eastern Canada
Werner Klug – Geology Western Canada
Henri Lizotte – Geophysics
Roberto Aguilera – Production and reservoir engineering
Gilberto Arenas – Drilling and Operation
Frank Aubin – Commercial
Louise Baril – Documentation
Gilles Dion – Drafting
Gaston Gamache – Purchasing and Equipment
Marcel Julien – Accounting
Rodrigue Gobeil – Data Processing

Technical consultants

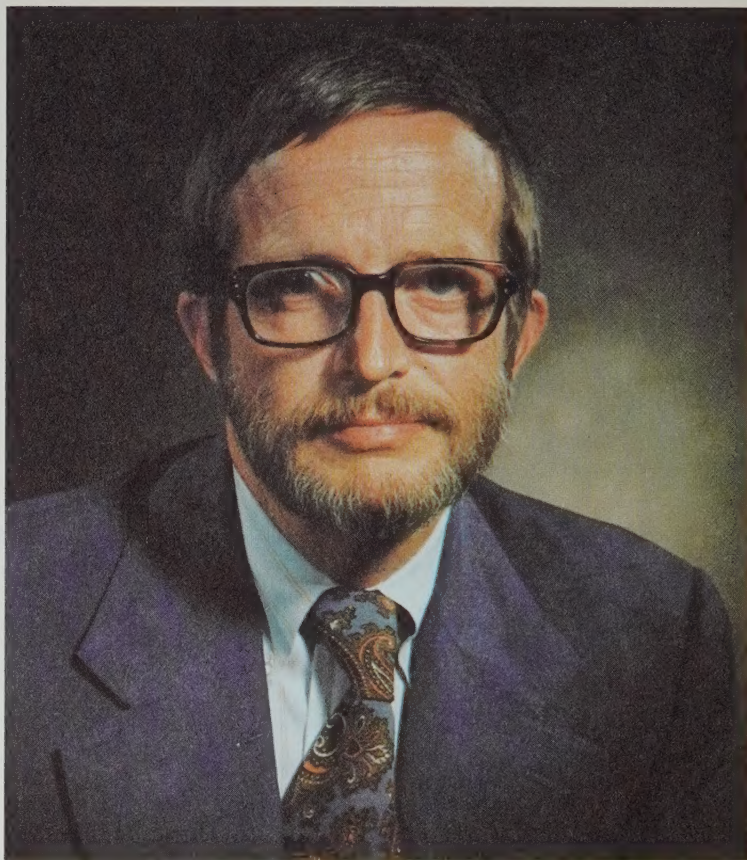
Applied Geoscience Technology, AGAT (Calgary)
Béliveau, Couture (Québec)
Bureau d'Études Industrielles et de Coopération de l'Institut français du Pétrole, BEICIP (Paris)
Dubé, Galibois et Associés, ingénieurs-conseils (Québec)
Grant Trimble Engineering Ltd. (Calgary)
Intercomp Resource Development and Engineering Ltd. (Calgary)
Jones, Black & Company (Calgary)
James A. Lewis Engineering Ltd. (Calgary)
LNG Services Inc. (Pittsburg)
Société d'Études et de Recherches de Matériel Industriel et Pétrolier, SERMIP (Paris)
Thornton Engineering Ltd. (Calgary)
Zinder & Associates Canada Ltd. (Ottawa)

Legal counsel

Létourneau, Stein, Marseille, Delisle & Larue (Québec)

Auditors

Bureau du Vérificateur général (Québec): annual financial report
Samson, Bélair & Associés (Québec): audits for associates



President's Statement

As we all know, a world shortage of crude oil might begin to be felt by the end of the 80's. The apprehended effects on the world economy of an acute competition between industrialized countries to secure the crude required for the full satisfaction of their respective needs have prompted some analysts to advocate the creation of an international forum of importing and exporting countries to jointly plan and implement the adequate allocation of oil supplies then available. It is in the interest of the OPEC countries, of the International Energy Agency member countries and of the Third World countries to avoid the disruptions which would result from a rush on petroleum supplies.

The need for a global concertation of petroleum policies is more and more strongly felt within certain specialized circles but this has not yet given rise to concrete measures in the concerned countries because the decline in the rate of growth of the world economy, and therefore in the consumption of crude, and the new oil production from the North Sea, Alaska and Mexico have created a temporary surplus which obscures the medium and long term trends of supply and demand and leads public opinion into a false sense of security.

The difficulties the Federal Government of United States experiences presently in implementing an energy policy to guarantee its medium and long term petroleum supply illustrates the result of the absence of a broad awareness of the underlying trends of supply and demand.

To the extent a degree of awareness of these trends allows them, the governments of industrialized countries are endeavouring to reduce the uncertainty of their long term oil supply by encouraging energy conservation and the development of the other primary energy sources available to them. While countries poor in energy resources emphasize nuclear development, Canada is turning towards synthetic petroleum and natural gas, and Québec is aiming for the full development of its hydroelectric potential and for a greater penetration of the market by natural gas.

The advantages of substituting natural gas for imported crude in eastern Canada are now recognized by governmental authorities and by a large segment of the Canadian oil and gas industry.

By reducing the consumption of petroleum products, this substitution will however worsen the already difficult situation of eastern Canada's refineries presently operating below capacity. It would seem appropriate that Canada would enter into negotiations with the United States so that this country, which benefits from a secure Canadian supply of oil and gas energy, accepts to import petroleum products displaced from the eastern Canadian markets by the penetration of Canadian natural gas. Petroleum products refined in Canada from imported crude could be exported to the United States backing out, if necessary, products from Caribbean refineries which also process imported crude. This would be justified as these refineries are located on islands which do not provide the United States with their own crude and gas as Canada does.

The partial transfer of refining operations for the American market from the Caribbean to eastern Canada would allow the substitution of Canadian gas for imported petroleum in that region. The net result of this transfer would be a reduction in the dependency of North-America on imported petroleum which is one of the stated objectives of the International Energy Agency.

The reduction of refining over-capacity in eastern Canada and competitive pricing of natural gas would facilitate the extension of the gas transmission system east of Montréal. Two major projects have been put forward, one reaching Québec and the other extending to Halifax.

In order to reduce reliance on imported crude, the route of the proposed gas transmission line should take into account the gas potential of the areas it crosses. SOQUIP is now discovering significant quantities of natural gas in the St-Lawrence lowlands. The gas bearing sediments of this region offer a number of drillable prospects on the south shore of the St-Lawrence river along the axis of a straight line from Montréal to Québec City.

The construction of a gas transmission line along this axis will considerably encourage the development of Québec's gas resources. Two years have already gone by since SOQUIP discovered natural gas at St-Flavien and at Villeroy, but these gas fields have not been put into production because taken individually they do not justify the construction of a trunk line to Québec and the development of a distribution system in that city.

Hydroelectric power and natural gas from Canada and Québec can reduce the share of imported oil in Québec's energy balance but there will nevertheless remain an important irreducible requirement whose availability in the future is uncertain.

Despite the discovery of the West Pembina oil field and the development of synthetic crude production from oil sands and heavy oils, it is expected that Western Canada will not be able to supply Montréal after the early 80's. In all likelihood, the Sarnia-Montréal pipeline will then be used in the other direction, from Montréal to Sarnia.

The Maritimes, Québec and even part of Ontario will then be captive buyers on the uncertain international petroleum market, as are presently industrialized countries lacking in petroleum resources such as Sweden, Western Germany, France, Italy, Spain and Japan.

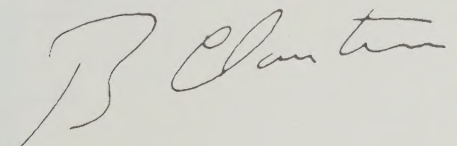
Faced with the uncertainty of their future petroleum supply, these countries have adopted a twofold strategy: on one hand, they take an active part in the activities of the International Energy Agency in the hope that this organization will be able to implement a fair allocation of available crude in case of a crisis or a shortage and, on the other hand, they encourage their State oil companies to explore in foreign producing countries so as to acquire the right to off-take crude oil at the source.

The right to take in kind a share of the petroleum production resulting from investments made now by a State company not only guarantees future supply but also offers the advantage of reducing the outlay of foreign currencies required later to buy equivalent quantities of petroleum. This favourable impact on the future balance of payments is becoming more and more important with the continually increasing price of crude oil.

SOQUIP whose team of some forty professionals in petroleum exploration and production represents close to 500 man-years of experience, devotes its main efforts to natural gas exploration in Québec and owns profitable gas fields in Alberta. These activities, which constitute its present priorities, seek to reduce Québec's reliance on imported crude.

On a long term basis, unless the above-mentioned mechanisms of international planning and allocation of available crude are implemented and proved effective in case of shortage, the competition between oil importing countries will lead them to avail themselves of all the means at the disposal of their governments. In this context SOQUIP keeps track of the evolution of crude supply and demand on the international market and maintains contacts abroad so as to be in the position to extend its activities should Québec's long term petroleum supply perspectives so require.

On behalf of the Board of Directors,



Bernard Cloutier,
Chairman of the Board and
Chief Executive Officer

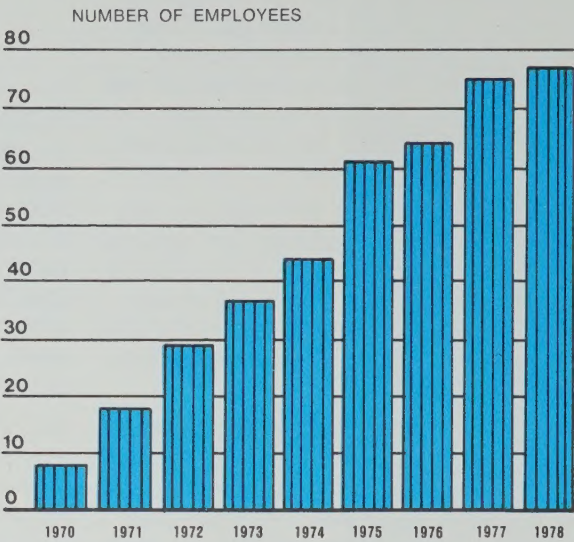
Ste-Foy, March 31 1978.

Addendum

Since this text was written, the Québec Government has announced in White Paper on Energy that SOQUIP's annual budget would be increased from 7,5 to 17,5 million dollars in order to accelerate the exploration of Québec's sedimentary basins.

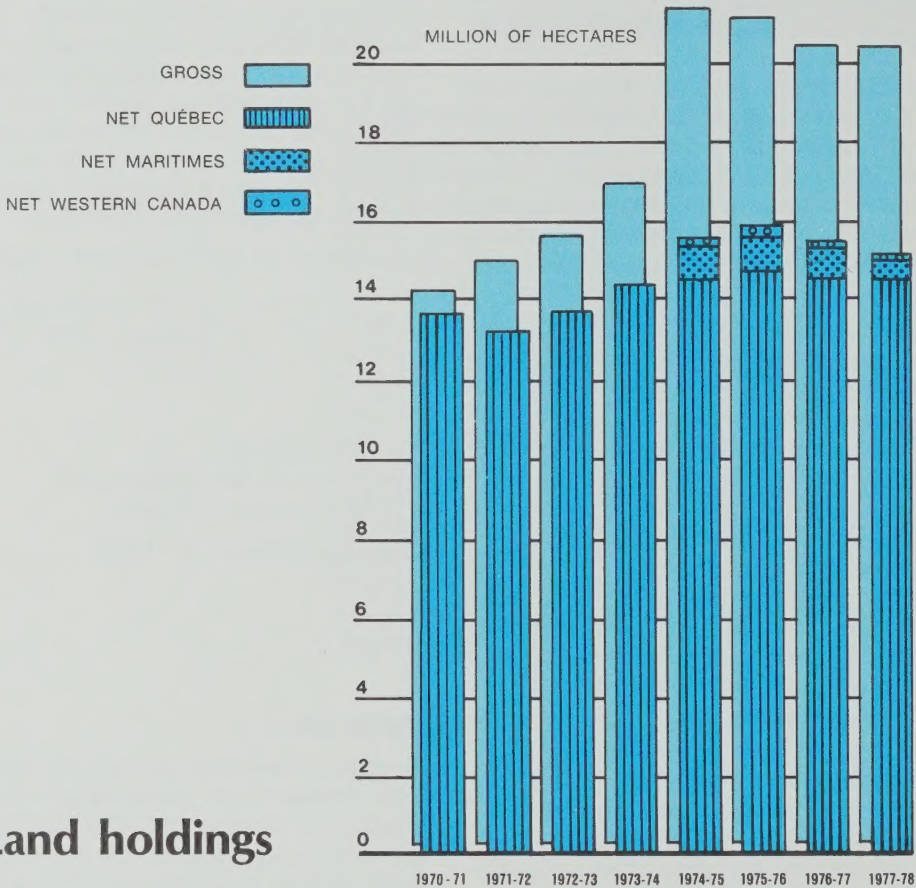
June 21 1978.

SOQUIP'S personnel



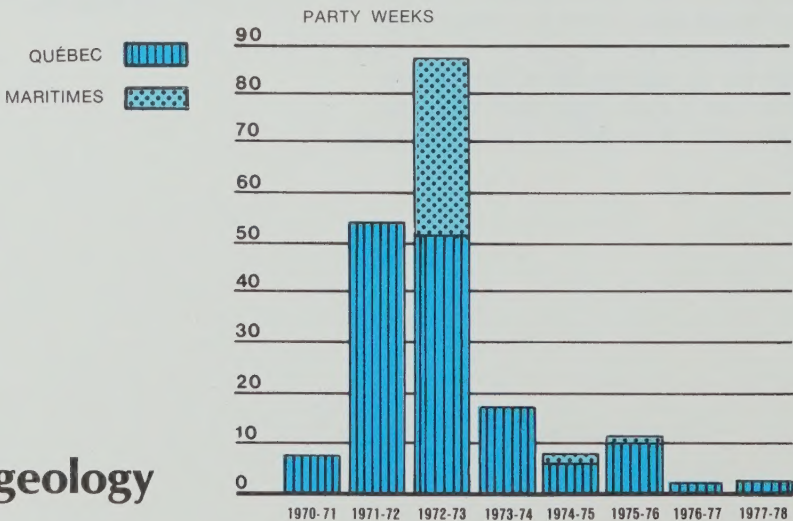
At the end of the 1977-78 fiscal year, SOQUIP had 77 employees compared with 75 employees at the end of the preceding year.

Land holdings



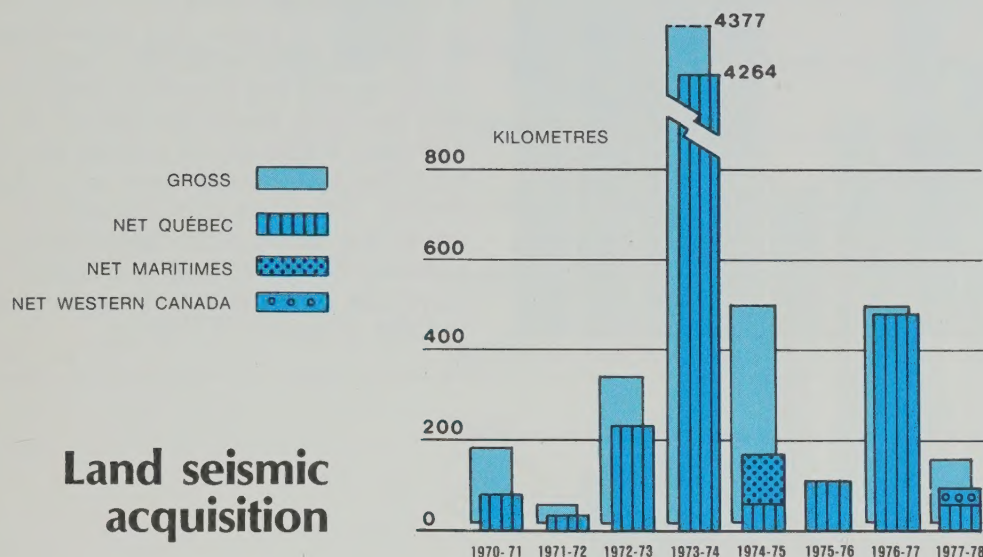
SOQUIP held exploration and/or production rights on a total of 21 947 878 gross hectares under provincial, federal or freehold leases. If deduction is made for the overlap of certain federal and provincial rights, the actual surface held by SOQUIP is 20 407 170 gross hectares. After deduction of its partners participation, SOQUIP held 15 061 880 net hectares which were divided as follows: 14 487 758 hectares in Québec, 560 978 hectares in the Maritime Provinces and 13 144 hectares in Western Canada.

Field geology



During the 1977-78, as in 1976-77, two team-weeks were spent on field studies in the Gaspé region.

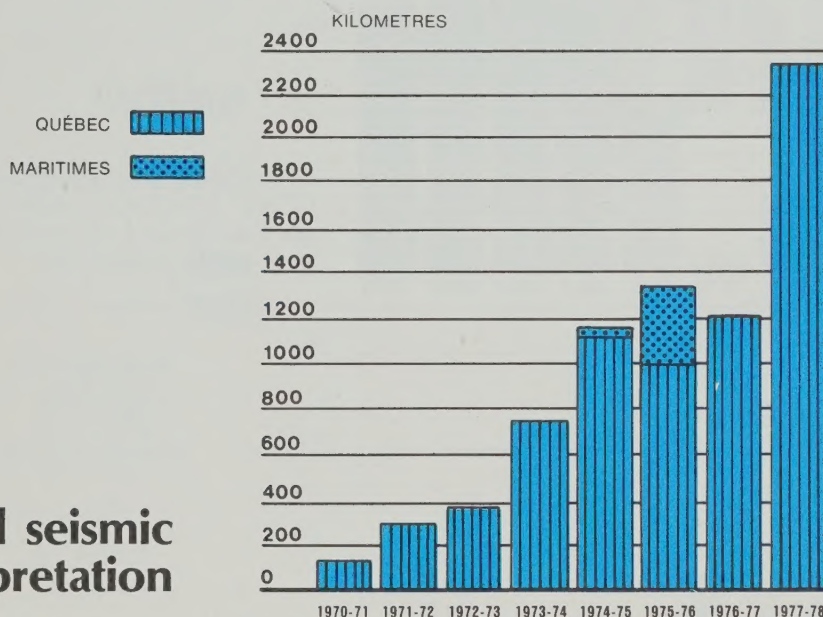
Land seismic acquisition



During this fiscal year, SOQUIP did not undertake any land seismic survey. However, SOQUIP bought from Norcen Energy Resources Limited 61 km of land seismic in the Rivière-du-Loup area.

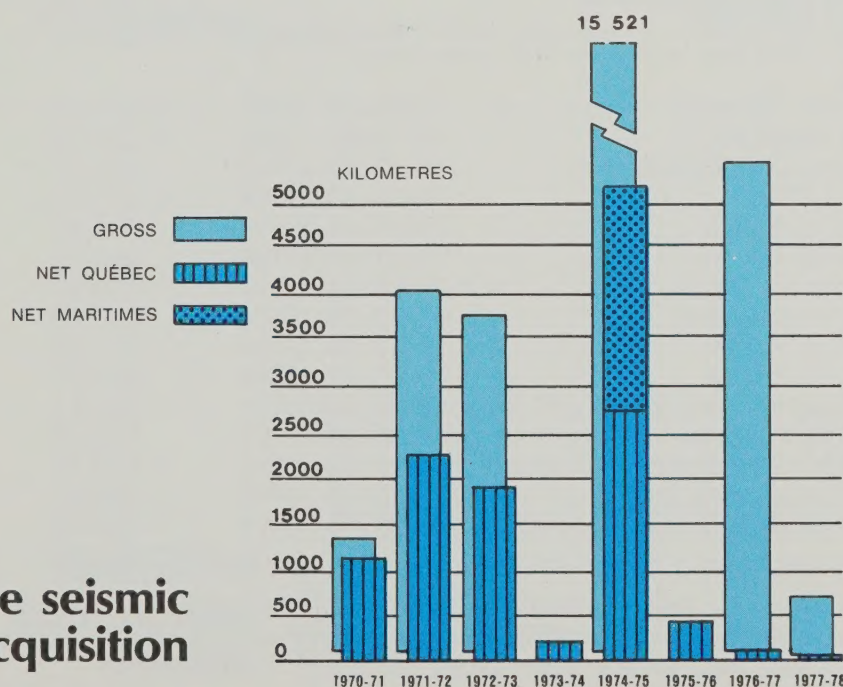
In Alberta, SOQUIP acquired through various association agreements 106 km of land seismic in the Lundbreck, Hoadley and Francis areas. SOQUIP's net acquisition in these areas is 30,5 km.

Land seismic interpretation



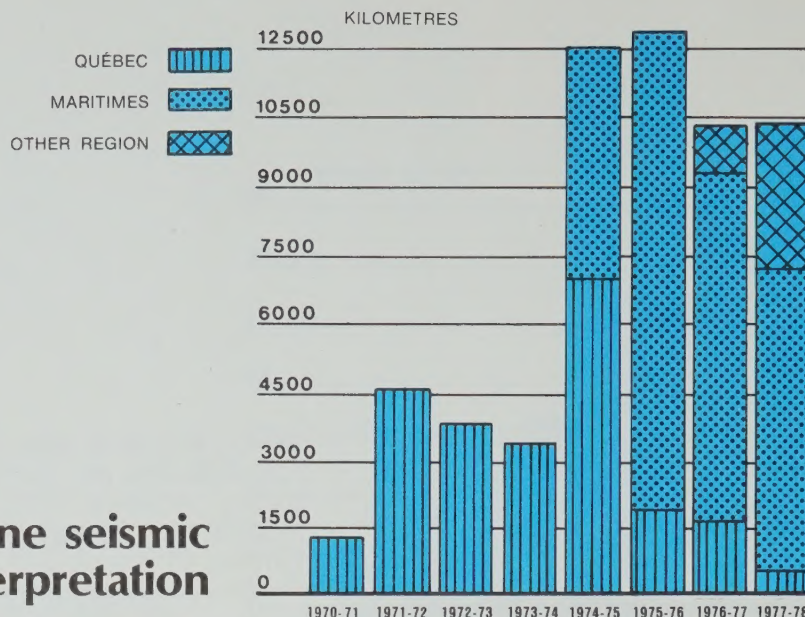
During 1977-78, 2 330 km of land seismic were interpreted. In the St. Lawrence Lowlands, 6 prospects were studied. In the eastern part of the Gaspé Peninsula, 12 prospects were identified.

Marine seismic acquisition



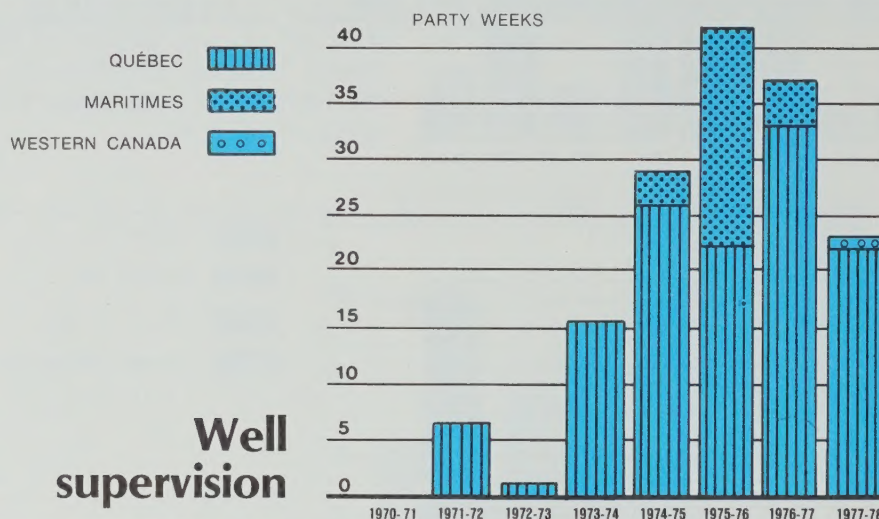
SOQUIP did not carry out any seismic program as operator during this past fiscal year. However, SOQUIP did participate in a 708 km marine seismic survey in the Labrador Sea under the terms of a farmout agreement with Aquitaine Company of Canada Ltd. SOQUIP's net participation in this program was 2,5%, representing 18 km. This participation will be increased to 90 km once SOQUIP has earned its 12,5% interest.

Marine seismic interpretation



This year, 10 345 km of marine seismic were interpreted. Of this, 6 240 km were from the Labrador Sea. In Québec, a study was undertaken in the Îles-de-la-Madeleine region covering 485 km and in the Maritimes, 400 km have been interpreted. In addition, 3 220 km of marine seismic from the Ivory Coast were also interpreted. This work was carried out under the terms of an agreement between SOQUIP and la Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire (PETROCI).

Well supervision



The drilling of wells required 22 weeks of well site supervision in the St. Lawrence Lowlands this year, and one week in Alberta.

Drilling

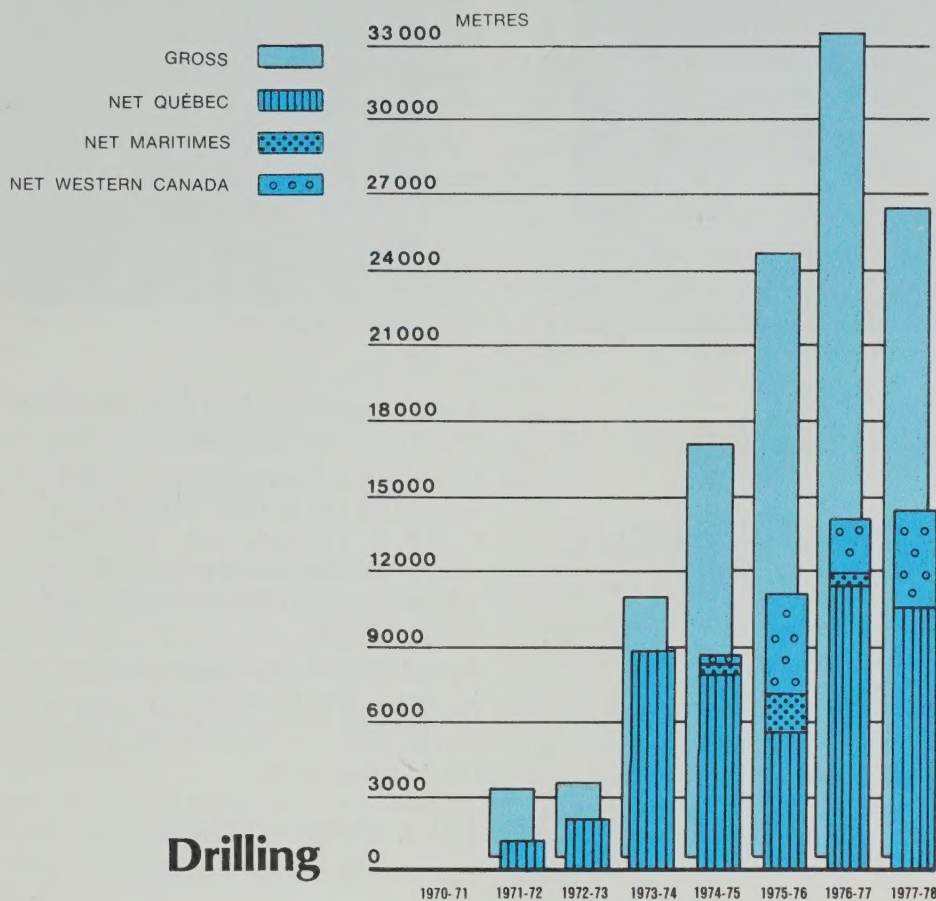
In Québec during 1977-78, SOQUIP and its partners drilled a total of 11 850 metres in 6 wells which compares the 11 823 metres drilled in 1976-77. SOQUIP's share was 10 652 metres net, for a decrease of 6% from 11 378 metres in 1976-77.

		NUMBER OF METRES DRILLED (with partners)	NET METRES SOQUIP (SOQUIP's share)
Québec			
SOQUIP et al. Ste-Hélène No 1		186,53 **	186,53
SOQUIP et al. St-Flavien No 6		1 950,72	1 950,72
SOQUIP et al. Lyster No 1		3 065,98	3 065,98
SOQUIP DOME et al.			
Notre-Dame du Bon Conseil No 1		2 517,34	1 319,47
SOQUIP Nicolet No 1		1 393,54	1 393,54
SOQUIP et al. Du Chêne No 1		2 735,58 *	2 735,58
	TOTAL:	11 849,69	10 651,82
Alberta			
Burns GIVL Galahad	7-34-40-15W4	1 066,80	177,79
CS et al. Sherman	6- 3-62-12W6	1 224,68 *	40,84
H.B. Home et al. Blackstone	14-33-42-17W5	509,01 **	10,66
BVX et al. Clive	11-31-40-24W4	1 651,40	275,23
Camel et al. Killam	6-21-44-10W4	716,58	262,73
Camel et al. Killam	6-21-44-11W4	864,10	316,68
Merland et al. Jarrow	10-36-44-11W4	819,91	74,98
Merland et al. Jarrow	11-32-44-10W4	821,43	150,57
Camel et al. Killam	7-31-44-11W4	841,55	231,34
Camel et al. Bruce	6-23-48-15W4	947,01	173,73
Camel et al. Bruce	7-22-48-15W4	953,41	174,95
Camel et al. Sedalia	7- 8-32- 7W4	922,02	338,02
Mesa SOQUIP Hoadley	10-27-44- 3W5	2 420,11	1 210,05
SOQUIP et al. Med. Hat	4-10-16- 5W4	356,61	178,30
SOQUIP et al. Med. Hat	6-23-16- 5W4	450,18	225,24
	TOTAL:	14 564,80	3 841,11

* Wells presently being drilled (depth at March 31 1978)

** Metres drilled during the 1977-78 fiscal year of wells spudded during the 1976-77 fiscal year.

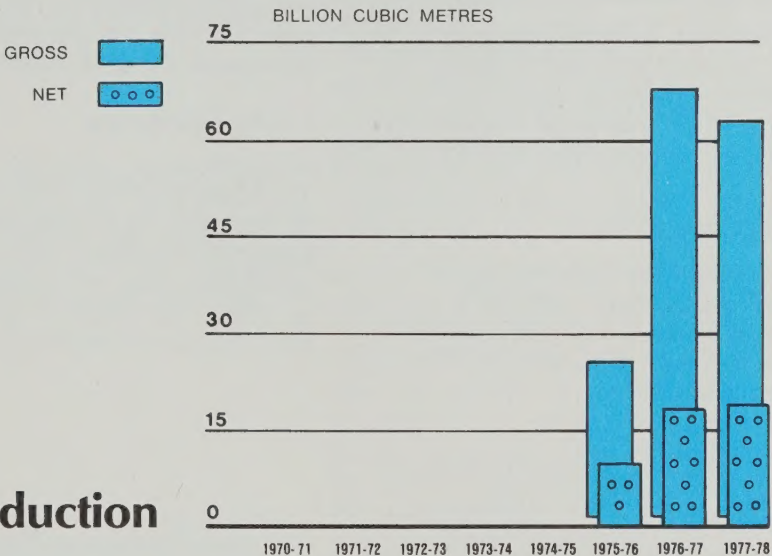
Drilling



Outside of Québec, SOQUIP participated in a total of 14 565 metres representing a decrease of 33% from 21 684 metres in 1976-77. However, SOQUIP's net participation increased from 2 423 metres during 1976-77 to 3 841 metres during the past fiscal year, for an increase of 58%. SOQUIP was the operator for 2 wells in the Twin Peaks area of Alberta.

In the aggregate, SOQUIP participated in the drilling of 26 415 metres in 21 wells with a net share of 14 493 metres. These figures indicate a decrease of 21% in the total depth participation but an increase of 5% in the share of SOQUIP's participation.

Production



During the fiscal year, SOQUIP pursued the development of its gas properties in Alberta, in association with other oil and gas companies. Gross annual production reached 62 297 070 cubic metres, compared with 67 690 440 cubic metres the year before. SOQUIP's annual net production was 19 085 557 cubic metres in comparison with 18 377 636 cubic metres in 1976-77. Because of low demand, gas sales were less than production capacity.

Industrial and commercial division

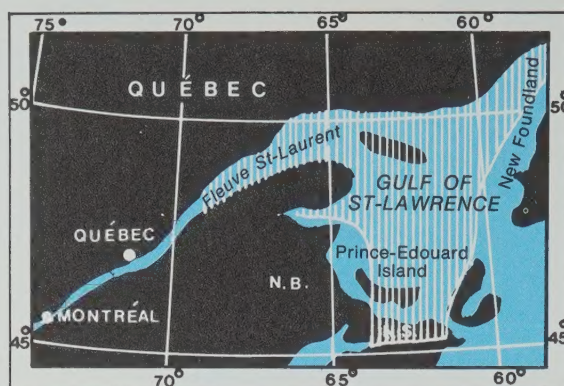
Decisions concerning the feasibility study conducted last year on the construction of a gas pipeline linking Saint-Flavien to Québec City had to be postponed because of the proposed extension of the pipeline from Montréal to Québec City.

A feasibility study on the transportation of compressed natural gas by truck from our wells to surrounding market areas was conducted and the project is scheduled to get underway as soon as expected adjustments to the present regulations are implemented.

The Industrial and Commercial Division is currently working on the development of industrial plants using natural gas as fuel or raw material.

Regional Summary

1) Gulf of St. Lawrence and Maritimes



1.1) LAND HOLDINGS

SOQUIP's gross land holdings: 17 401 617 hectares, (14 817 477 hectares in Québec).

SOQUIP's net land holdings: 13 596 858 hectares, (13 035 880 hectares in Québec).

1.1.1) Gulf of St. Lawrence

St. Lawrence Estuary Project

SOQUIP holds 11 233 587 hectares of Québec provincial permits in this area. During the fiscal year, SOQUIP surrendered all the federal permits held jointly with Amoco Canada Petroleum Company Ltd. in the St. Lawrence Estuary, within Québec's territory.

Central Gulf of St. Lawrence Project

SOQUIP and Amoco Canada Petroleum Company Ltd. respectively own a 50% interest in Québec provincial rights to 1 903 496 hectares in this area. Federal permits have been surrendered during the year.

Îles-de-la-Madeleine Project

SOQUIP and La Société Acadienne de Recherches Pétrolières Ltée (SAREP) jointly hold the rights to 1 335 468 hectares of provincial permits on and around the Îles-de-la-Madeleine.

Île d'Anticosti Project

The eastern tip of Île d'Anticosti, an area of 344 926 hectares, is still held under Québec provincial permits by SOQUIP, Scurry-Rainbow Oil Limited and PanCanadian Petroleum Limited.

1.1.2) Maritimes

Prince Edward Island Project

The rights in this area are held by SOQUIP, Hudson's Bay Oil and Gas Company Limited and Petrofina Canada Ltd., each with a 28,5714% interest, Getty Oil (Maritimes) Ltd. having a 14,2858% interest.

The land holdings are divided as follows:

Prince Edward Island permits:

996 817 hectares

Nova Scotia permits: 653 477 hectares

Federal permits: 1 398 543 hectares

Sydney Basin Project

During the year, SOQUIP increased its interest in this project. Hence, the interests owned are as follows:

BLOC A)

Federal permits: 124 337 hectares

Provincial permits: 130 536 hectares

Petro-Canada Exploration Inc.: 22,5115%

Murphy Oil Company Ltd.: 15,3139%

Francana Oil & Gas Ltd.: 14,0888%

L.L. & E. Canada, Ltd.: 14,0888%

Husky Oil Operations Ltd.: 14,0888%

CNG Development Company Ltd.: 7,6570%

SOQUIP: 12,2512%

BLOC B)

Federal permits: 159 135 hectares

Provincial permits: 662 004 hectares

Murphy Oil Company Ltd.: 25%

Francana Oil & Gas Ltd.: 11,5%

L.L. & E. Canada, Ltd.: 23%

Husky Oil Operations Ltd.: 23%

CNG Development Company Ltd.: 12,5%

SOQUIP: 5%

Minas and Antigonish Project

During the year, SOQUIP and its partners surrendered all their rights to the permits held in this area.

1.2) EXPLORATION

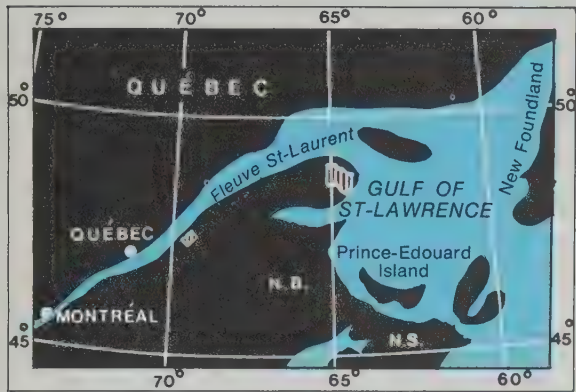
1.2.1) Gulf of St. Lawrence

No exploration program was carried out in the Gulf of St. Lawrence this year. Regarding this area, SOQUIP's effort has been to look for partners to pursue the exploration of this basin.

1.2.2) Maritimes

No exploration program was carried out in the Maritimes this year. SOQUIP and its partners have reassessed their exploration policy. With the purpose of reactivating the exploration of these basins, an effort was made to group the companies exploring the neighbouring areas.

2) Péninsule de Gaspé



2.1) LAND HOLDINGS

SOQUIP's gross land holdings:
331 623 hectares
SOQUIP's net land holdings:
326 868 hectares

During the year, the recovery of SOQUIP's permits in this area was changed as follows:

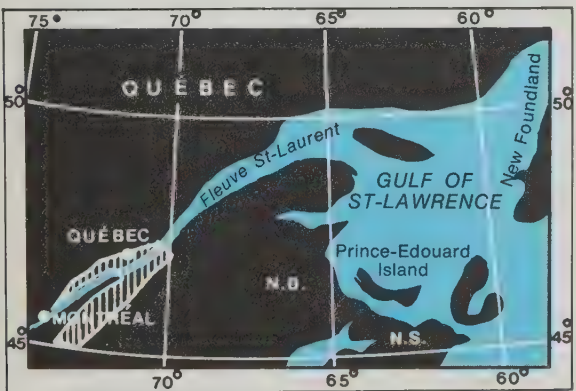
In the Rimouski area, SOQUIP surrendered all its permits (93 078 hectares). In the Murdochville area, 119 180 hectares were surrendered, and only one 10 117 hectare permit was retained.

In the eastern part of the peninsula, SOQUIP acquired three new permits (51 598 hectares) and surrendered one 11 857 hectare permit.

One gas and oil exploration permit covering 20 510 hectares and one underground reservoir permit covering 18 767 hectares were acquired by SOQUIP in the Rivière-du-Loup area.

2.2) EXPLORATION

Evaluation of seismic data enabled SOQUIP to delineate a dozen prospects in the eastern part of the Péninsule de Gaspé. Regarding the same area, SOQUIP looked for partners in a drilling program for 1978.



3.1) LAND HOLDINGS

SOQUIP's gross land holdings:
1 123 634 hectares
SOQUIP's net land holdings:
1 088 491 hectares

SOQUIP now holds 36 exploration permits and 3 987 private mining leases in this area.

The exploration permits are divided as follows:

- 1 027 100 hectares on the south shore of the St. Lawrence and in the Trois-Rivières area, of which 733 698 hectares are subject to a royalty to Shell Canada Ltd.;
- 32 751 hectares in the Île d'Orléans area, held by SOQUIP (35%), Sisque Company Ltd. (35%) and PanCanadian Petroleum Limited (30%);
- 32 100 hectares in the northern part of Québec City, held by SOQUIP (92%) and PanCanadian Petroleum Limited (8%);
- 18 616 hectares covering the Île d'Orléans, held by SOQUIP (70%) and PanCanadian Petroleum Limited (30%);
- 13 067 hectares in the Québec City area, held by SOQUIP (55%) and Sisque Company Ltd. (45%).

An agreement was signed with Dome Petroleum Limited for the drilling of a deep well in the Notre-Dame du Bon Conseil area. SOQUIP has thus farmed out 13 580 hectares of its Block 197 to Dome Petroleum Limited.

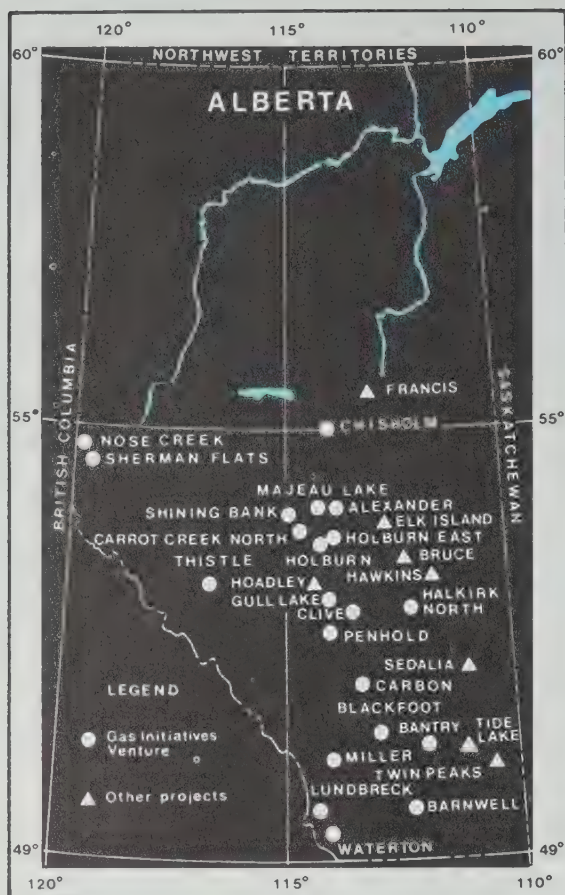
3.2) EXPLORATION

South of Lake Saint-Pierre, SOQUIP drilled the SOQUIP - Nicolet No. 1 well to a depth of 1 394 metres. This well went through the whole shelf sequence and stopped in the basement. This drilling revealed the presence of a basal sandstone which seems to possess the characteristics of a good hydrocarbon reservoir. Interesting gas shows were also encountered in the Beekmantown dolomites. The well is suspended to be completed and stimulated in order to start production testing.

In south-western Québec, the Du Chêne well was drilled to a depth of 3 179 metres. A gas show from a fractured Utica reservoir was encountered. Although this gas occurrence is significant because it is located in the continuation of the Villeroy zone, pressures tests indicated that the output of Du Chêne was too low to be marketable.

In the inland area, the Saint-Flavien No. 6 well, 1 951 metres in depth, has enabled us to determine the northern limit of the Saint-Flavien deposit. In the same area, the Lyster well was started with the purpose of exploring another slice of thrust carbonates. Drill stem tests revealed the presence of an interesting zone. This well is suspended to be completed and stimulated in the hope of obtaining a marketable gas output.

4) Alberta



4.1) LAND HOLDINGS

SOQUIP's gross land holdings:

82 557 hectares

SOQUIP's net land holdings:

12 447 hectares

Under the agreement with Camel Resources Ltd., 1 165 additional hectares were acquired, bringing the total gross holdings to 4 597, of which 1 520 hectares are SOQUIP's net holdings.

Under the agreement between SOQUIP and 95319 Oil & Gas Ltd., a farm out from Alberta Energy Company Ltd. has increased our holdings by 194 hectares, bringing them to 1 522 gross hectares.

Under the agreement between SOQUIP and Mesa Petroleum (N.A.) Co., three licences were acquired during the year, bringing the number of gross hectares held to 7 640 from 3 626.

SOQUIP maintained its 33⅓% interest in the Gas Initiatives Venture with Algas Mineral Enterprises Ltd. and Many Islands Pipe Lines Ltd. This association now holds 68 797 gross hectares, of which 19 143 hectares are net, giving SOQUIP 6 381 net hectares.

4.2) EXPLORATION

SOQUIP participated, with its partners, in the drilling of 15 wells totalling 14 565 metres. The average interest of SOQUIP was 26%. One of these wells is being drilled, four are now producing, eight have a gas potential while two were dry. In its association with Camel Resources Ltd., SOQUIP participated in the drilling and completion of seven wells having a gas potential in the Killam, Bruce and Sedalia areas.

In the Hoadley area, SOQUIP and Mesa participated in the drilling of a 2 420 metre well with gas potential.

Through the Gas Initiatives Venture, SOQUIP participated in the drilling and completion of a 1 651 metre well with gas potential in the Clive area. In the Halkirk North area, a 1 067 metre dry hole was abandoned. In the Thistle area, a 4 021 metre well, H.B. Home et al. Blackstone, was completed as a potential gas producer. In the Sherman area, Canada Cities Service Ltd. has taken charge of operations and the well is now called CS et al. Sherman. This well is being drilled and the total depth anticipated is 4 542 metres.

SOQUIP drilled, as operator with its partner 95319 Oil and Gas Ltd., two gas producing wells in the Twin Peaks area.

4.3) PRODUCTION

The wells located in the Twin Peaks area, operated by SOQUIP for the SOQUIP - 95319 Oil and Gas Ltd. partnership, produced a total of 28 600 019 cubic metres of natural gas. Pursuant to an agreement with SIDBEC, SOQUIP sold 27 070 909 cubic metres of this gas to Pan-Alberta Gas Ltd., SIDBEC's agent in Alberta. SOQUIP's net share in this sale was 12 940 800 cubic metres before the payment of royalties to the Crown.

During this same period and under the Gas Initiatives Venture partnership, the wells located in the Bantry area produced a total of 24 494 075 cubic metres of natural gas. SOQUIP's net share was 3 171 487 cubic metres before the payment of royalties to the Crown.

Two wells were also put in production in the Hawkins area. They produced 821 189 cubic metres over a period of four months. SOQUIP's net share of this sale was 269 010 cubic metres.

Two wells of the Carbon area were put in production in June 1977. They produced 8 098 619 cubic metres of natural gas, of which 2 690 101 cubic metres were SOQUIP's net share before payment of royalties to the Crown.

5) Yukon - Northwest Territories



5.1) LAND HOLDINGS

SOQUIP's gross land holdings:
6 978 hectares
SOQUIP's net land holdings: 698 hectares
Having fulfilled its contractual obligations, SOQUIP owns a 10% interest in Block "A" of the PanCanadian Petroleum Company Limited farm out, in the La Biche area, on the Yukon - Northwest Territories border.

5.2) EXPLORATION

SOQUIP and Fort Norman Exploration Inc. did not exercised their options and no other exploration effort was made in this area.

6.1) LAND HOLDINGS

Further to the agreement between Aquitaine Company of Canada Ltd., Gulf Oil Canada Limited, Pacific Petroleums Ltd., Petro-Canada Exploration Inc. and SOQUIP, the latter has acquired a 2,5% interest in two blocks totalling 1 460 762 gross hectares, thus gaining 36 519 net hectares.
SOQUIP also agreed to fund 25% of the cost of offshore drilling in order to earn a 12,5% interest in these afore-mentioned blocks.

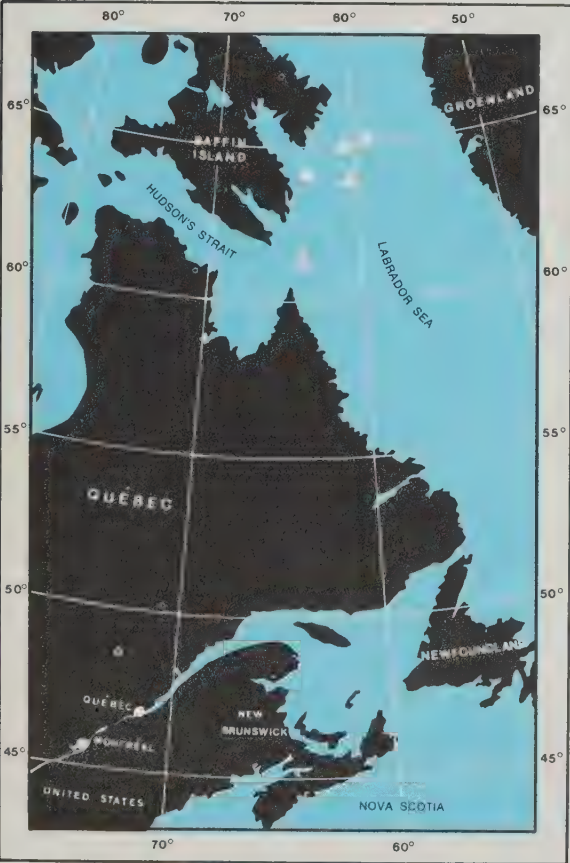
6.2) EXPLORATION

The evaluation of the new offshore seismic data gathered during the 1977 summer has enabled SOQUIP to define drilling targets. Our group is now taking part in environmental studies aimed at gauging the impact that offshore drillings could have on this part of the Canadian territory. The drilling of a first well is scheduled for the summer of 1979.

7) Other sector - Ivory Coast



Pursuant to an agreement between SOQUIP and PETROCI (La Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire), SOQUIP completed the analysis of the offshore seismic data gathered on the western part of the coast of the Republic. Hydrocarbons were recently discovered in the offshore territory, east of this area.

6) Labrador Sea



Balance sheet
as at March 31
1978



Assets		
	1978	1977
	\$	\$
CURRENT ASSETS		
Cash and term deposits	1 232 880	1 174 893
Accounts receivable	1 120 640	299 952
Inventory of drilling supplies - at cost	1 142 149	703 576
Subscribed share capital receivable (note 2)	7 500 000	7 500 000
	10 995 669	9 678 421
	-----	-----
SUBSCRIBED SHARE CAPITAL RECEIVABLE (note 2)	38 400 000	37 500 000
	-----	-----
FIXED ASSETS		
Petroleum and natural gas properties — at cost	42 505 113	34 935 469
Others — at cost less accumulated depreciation of \$332 922 (\$278 060 in 1977)	583 178	501 816
	43 088 291	35 437 285
	-----	-----
	92 483 960	82 615 706
	=====	=====
Signed on behalf of the board		
		
President	Vice-President	

Liabilities

	1978	1977
	\$	\$
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1 185 948	970 758
Instalments on long-term debt (notes 3 and 4)	87 524	266 850
	1 273 472	1 237 608
LONG TERM DEBT		
Advances refundable on production (note 3)	1 012 888	1 001 298
Non recourse bank loan (note 4)	297 600	376 800
	1 310 488	1 378 098

SHAREHOLDER EQUITY

SHARE CAPITAL (note 2)		
Authorized — 2 000 000 shares, of a par value of \$50		
Subscribed — 1 798 000 shares	89 900 000	80 000 000
	92 483 960	82 615 706

Auditor’s report

I have examined the balance sheet of Société québécoise d’initiatives pétrolières – SOQUIP as at March 31 1978 and the statement of exploration expenditures capitalized to petroleum and natural gas properties and the statement of changes in financial position for the year then ended. I have obtained all the information and explanations I have required. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

As disclosed in the accounting policies described in note 1, the company is in the exploration stage since its foundation. It capitalizes to petroleum and natural gas properties the expenses related to petroleum exploration and its other expenses and deducts therefrom its sundry income. As at March 31 1978 the company is deemed to have realized no profit and sus-

tained no loss; accordingly, no statement of revenue and expenses is presented.

In my opinion, subject to such adjustments as would result from failure to recover in future operations the amount of \$42 505 113 at which the petroleum and natural gas properties are carried in the balance sheet, these financial statements present fairly the financial position of the company as at March 31 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Gérard Larose, c.a.,
Auditor-General.

Québec, June 22 1978.

Petroleum and natural gas properties

Statement of Exploration Expenditures Capitalized

for the year ended March 31 1978

	Balance as at March 31 1977	Net Additions	Transfers to abandoned permits	Balance as at March 31 1978
	\$	\$	\$	\$
Current projects				
Acquisitions of rights	4 679 865	956 429	48 755	5 587 539
Geological operations	938 364	167 805	50 585	1 055 584
Geophysical operations	5 202 619	627 969	221 138	5 609 450
Drilling operations	19 270 739	4 391 851	934 871	22 727 719
	<u>30 091 587</u>	<u>6 144 054</u>	<u>1 255 349</u>	<u>34 980 292</u>
Abandoned permits				
Acquisitions of rights	86 017		48 755	134 772
Geological operations	72 212		50 585	122 797
Geophysical operations	527 200		221 138	748 338
Drilling operations	25 856		934 871	960 727
	<u>711 285</u>		<u>1 255 349</u>	<u>1 966 634</u>
General and administrative expenses	<u>5 768 978</u>	<u>2 078 481</u>		<u>7 847 459</u>
Expenses capitalized to petroleum and natural gas properties before the following deductions	<u>36 571 850</u>	<u>8 222 535</u>	<u>—</u>	<u>44 794 385</u>
Net financial income	864 853	75 379		940 232
Net income from natural gas sales	511 824	562 700		1 074 524
Miscellaneous income	259 704	14 812		274 516
	<u>1 636 381</u>	<u>652 891</u>		<u>2 289 272</u>
Expenditures capitalized to petroleum and natural gas properties	<u>34 935 469</u>	<u>7 569 644</u>	<u>—</u>	<u>42 505 113</u>

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

1. ACCOUNTING POLICIES

Petroleum and natural gas properties
 The activities of the company are in the exploration stage and all expenses less sundry income are capitalized to petroleum and natural gas properties. The company is deemed to have realized no profit and sustained no loss; accordingly, no statement of revenue and expenses is presented.
 Other fixed assets
 Depreciation of other fixed assets is calculated on the declining balance method at generally recognized rates.

2. SHARE CAPITAL

During the fiscal year, the company received \$9 000 000 in payment for 180 000 shares raising its paid-up share capital to \$44 000 000 as at March 31 1978. The company will receive \$7 500 000 annually for the next five years and an additional amount of \$8 400 000 on or before December 31 1980, in payment of its share capital subscribed and unpaid as at March 31 1978.
 The Act also authorizes the Ministre des Finances to pay to the company in one or more instalments before March 31 1983, according to its activities and with the authorization of the Lieutenant-gouverneur en conseil, the \$10 100 000 unsubscribed share capital (202 000 shares).

Statement of changes in financial position

SOQUIP

Société Québécoise
d'Initiatives Pétrolières

for the year ended March 31 1978

	1978	1977
Source of working capital	\$	\$
Share capital	9 000 000	7 500 000
Long-term debt	39 888	30 338
Proceeds from sales of fixed assets	29 810	3 025
	9 069 698	7 533 363
Use of working capital		
Petroleum and natural gas properties		
Capitalized expenditures — net	7 569 644	8 748 824
Less expenses requiring no cash outlay:		
Depreciation and loss on sale of fixed assets	85 801	98 520
Working capital used for the petroleum and natural gas properties	7 483 843	8 650 304
Acquisitions of other fixed assets	196 973	178 236
Long-term debt reimbursement	107 498	266 850
	7 788 314	9 095 390
Increase (decrease) of working capital	1 281 384	(1 562 027)
Working capital at beginning of year	8 440 813	10 002 840
Working capital at end of year	9 722 197	8 440 813

3. ADVANCES REFUNDABLE ON PRODUCTION

The advances bear no interest and are refundable only by revenues from gas production resulting from investments financed by the advances.

4. NON RECOURSE BANK LOAN

This non recourse bank loan, guaranteed by certain petroleum and natural gas properties, is refundable only by revenues from gas production of these properties and does not affect adversely in any way the company's credit.

Joint venture associates

Adohr Oil and Gas Limited
Algas Mineral Enterprises Ltd.
American Ultramar Limited
Amoco Canada Petroleum Company Ltd.
Aquitaine Company of Canada Ltd.
Augdome Corporation Ltd.
Camel Resources Ltd.
Canada Cities Service, Ltd.
Canadian Occidental Petroleum Ltd.
Cessland Corporation Ltd.
CNG Development Company Ltd.
Dome Petroleum Limited
Fort Norman Explorations Inc.
Francana Oil & Gas Ltd.
Getty Oil (Maritimes) Ltd.
Glenora Resources Ltd.
G.R. Hugo
Gulf Oil Canada Limited
Hudson's Bay Oil and Gas Company Limited
Husky Oil Operations Ltd.
Kerr McGee of Canada Northwest Ltd.
L.L. & E. Canada, Ltd.
Many Islands Pipe Lines Limited
Mesa Petroleum (N.A.) Co.
Murphy Oil Company Ltd.
95319 Oil & Gas Ltd.
Pacific Petroleums Ltd.
PanCanadian Petroleum Limited
Pan Mackenzie Petroleums Limited
Petro-Canada Exploration Inc.
Petrofina Canada Ltd.
The Proppet Investors
R.A.N. Bonnycastle
Resolute Petroleums Ltd.
Scurry-Rainbow Oil Limited
Shawnee Petroleums Limited
Shell Canada Limited
Sisque Company Ltd.
Société Acadienne de Recherches
Pétrolières Ltée (Texaco Exploration Ltd.)
Sogepet Limited

Royalty associates

Alberta Energy Company Limited
Canden Resources Ltd.
Consolidated Bathurst Ltd.
Consolidated Developments Ltd.
Francana Oil & Gas Ltd.
Hudson's Bay Oil & Gas Company Limited
Oakwood Petroleums Ltd.
Onaco Petroleum Limited
PanCanadian Petroleum Limited
Pan Ocean Oil Ltd.
Pawnee Petroleums
Pennant Puma Oils Ltd.
Les Pétroles Laduboro Ltée
Ranger Oil (Canada) Ltd.
Shell Canada Limited
Shell Explorer Limited
Shell Québec Limitée
Siebens Oil & Gas Ltd.
Sisque Company Ltd.
H. Westmore Consulting Ltd.

Gas Initiatives Venture

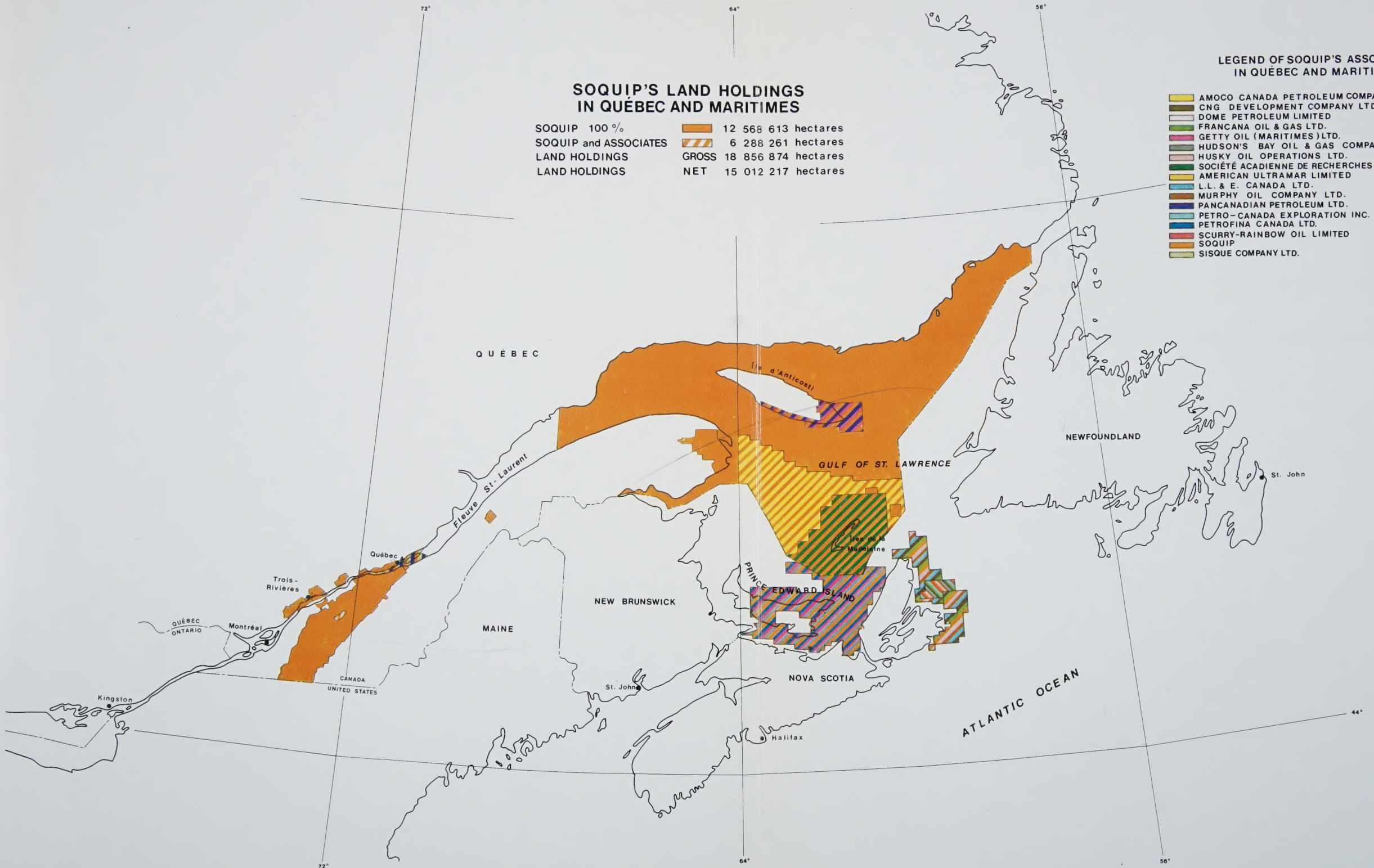
Algas Mineral Enterprises Ltd.
Many Islands Pipe Lines Limited
Société Québécoise d'Initiatives Pétrolières
(SOQUIP)

SOQUIP'S LAND HOLDINGS IN QUÉBEC AND MARITIMES

SOQUIP 100 %	12 568 613 hectares
SOQUIP and ASSOCIATES	6 288 261 hectares
LAND HOLDINGS GROSS	18 856 874 hectares
LAND HOLDINGS NET	15 012 217 hectares

LEGEND OF SOQUIP'S ASSOCIATES IN QUÉBEC AND MARITIMES

- AMOCO CANADA PETROLEUM COMPANY LTD.
- CNG DEVELOPMENT COMPANY LTD.
- DOVE PETROLEUM LIMITED
- FRANCANA OIL & GAS LTD.
- GETTY OIL (MARITIMES) LTD.
- HUDSON'S BAY OIL & GAS COMPANY LIMITED
- HUSKY OIL OPERATIONS LTD.
- SOCIÉTÉ ACADIENNE DE RECHERCHES PÉTROLIÈRES LTEE
- AMERICAN ULTRAMAR LIMITED
- L.L. & E. CANADA LTD.
- MURPHY OIL COMPANY LTD.
- PANCANADIAN PETROLEUM LTD.
- PETRO-CANADA EXPLORATION INC.
- PETROFINA CANADA LTD.
- SCURRY-RAINBOW OIL LIMITED
- SOQUIP
- SISQUE COMPANY LTD.



Ce rapport est aussi disponible en français
Veuillez écrire à:

SOQUIP
3340, de la Pêrade
Ste-Foy, Qué.
G1X 2L7

Legal deposit
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3rd trimestre 1978